

ACTION NEA-00

INFO	LOG-00	EEB-00	AID-00	CEA-01	CIAE-00	COME-00	CTME-00
	INL-00	DNI-00	DODE-00	DOEE-00	DOTE-00	DS-00	DHSE-00
	EXIM-01	E-00	FAAE-00	VCI-00	DIAS-00	FRB-00	H-00
	TEDE-00	INR-00	ITC-01	LAB-01	L-00	ARMY-00	MOFM-00
	MOF-00	M-00	CDC-00	VCIE-00	NRC-00	NSAE-00	ISN-00
	NSCE-00	OES-00	OMB-00	NIMA-00	PM-00	SCT-00	ISNE-00
	DOHS-00	FMPC-00	SP-00	IRM-00	SSO-00	SS-00	STR-00
	NCTC-00	CBP-00	BBG-00	EPAE-00	IIP-00	PMB-00	DSCC-00
	PRM-00	DRL-00	G-00	SAS-00	FA-00	SWCI-00	/004W

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INFO AMEMBASSY ABU DHABI PRIORITY
GULF COOPERATION COUNCIL COLLECTIVE
DEPT OF TREASURY WASHINGTON DC
DEPT OF TREASURY WASHINGTON DC
AMCONSUL DUBAI

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E.O. 12958: DECL: 11/9/2018
TAGS: [EFIN](#) [ECON](#) [EINV](#) [ENRG](#) [PGOV](#) [AE](#)
SUBJECT: DUBAI: SLOWDOWN, CORRECTION OR CRISIS?

REF: A. A) ABU DHABI 1225
[B. B\) ABU DHABI 1221](#)
[C. C\) ABU DHABI 1141](#)
[D. D\) ABU DHABI 1079](#)
[E. E\) ABU DHABI 1696](#)
[F. F\) ABU DHABI 1252](#)

CLASSIFIED BY: Paul Sutphin, Consul General, Consulate General
Dubai, UAE.
REASON: 1.4 (b), (d)

[1. \(C/NF\) Summary.](#) The extent of Dubai's financial troubles has become the most speculated about topic amongst the Emirate's financial elite. As the regional symbol of growth and prosperity, a crisis here would almost certainly impact upon investment in Abu Dhabi and beyond. Even as the investment sector struggles to maintain its confidence, however, Dubai's leadership is arguably undermining its own objectives by failing to acknowledge publicly the reality the rest of the world is faced with every day - the economy is under pressure. Despite the resistance to admit the problem, the effects are already being seen through the cancellation or scaling back of major development projects. Nonetheless, regulators and investors agree that, if handled correctly through injections of liquidity and greater transparency, the slowdown facing Dubai is more likely to be 2-3 years of financial pain rather than a long-term threat to Dubai's development dreams. End Summary

Origins of the "Crisis"

[2. \(C/NF\) Dubai's leadership is working - quietly, and](#) apparently in close coordination with the Abu Dhabi leadership -- to ensure the liquidity crunch in the UAE's banks, and by extension the Emirate's ambitious projects, seem certain to face does not completely derail its ambitious long-term development plans. Reliable rumors persist of an initial Abu Dhabi "bailout" injection of cash to Dubai of between USD 15-50 billion (our sources indicate USD 20-25 billion was the likely amount given)

passed through the Dubai government for disbursement to (unnamed) banks, with the idea this cash would support Dubai government-linked entities. The local liquidity crunch (most argue it is still too early to call it a crisis) likely has multiple origins, clearly including the global crisis. Sources have told us that a significant contributor, however, seems to be currency speculation - including conversion of dollars into dirhams in the recent past -- based on last year's rumors of possible re-valuation or de-pegging of the dirham from the dollar. Chairman of the Dubai Financial Market, Essa Kazim, confirmed that, when the dollar started to appreciate vis-à-vis other global currencies, over USD 50 billion was quickly pulled out of UAE banks, leaving a sizeable liquidity gap.

Slowdown in the Offing

3.(C/NF) Dubai's aggressive development plans, with highly leveraged projects, have exacerbated the potential for a crisis/crash here (note: as per ref f, we believe Dubai's total debt load is approximately \$120 billion; according to well sourced local press reporting, debt level for the UAE as a whole is \$170 billion). As liquidity has dried up, Dubai has begun to witness a contraction in commercial lending; some banks, such as Lloyds TSB, have suspended all commercial lending for the rest of the calendar year. Many of Dubai's mega-projects have been predicated on the continuing availability of relatively cheap finance. Multiple, well-placed private sector sources tell us the current cash crunch will inevitably lead, at a minimum, to a significant slowdown in development of some big-ticket projects, and the likely cancellation of others. One rumor is that Dubai government developer Nakheel's third, and largest, Palm island project, Palm Deira, has seen work suspended; a recent overflight by a Congen source saw very little work on the project, which is perhaps 10 percent complete, taking place. Another rumor to which we give credence is that public/private developer EMAAR's massive Arabian Canal project - a 70 Km artificial river - will also be cancelled.

4.(C/NF) The impact on these projects and a host of other, lesser schemes will play out over the next 6-12 months. But there is little doubt one result of the cash shortage will be a correction in the overheated, overvalued, but to date all-important Dubai real estate market as investor confidence - and investor funding -- shrinks. A senior manager in the Dubai International Financial Center's (DIFC) regulating authority, the Dubai Financial Services Authority, argued that such a correction may actually enhance Dubai's long term development as lower prices will draw in investors who had been priced out of the market over the last 18 months' breakneck price increases and allow a period for Dubai's overtaxed road, power and water infrastructure to catch up to the pace of development.

5.(C/NF) Some private sector contacts speculate that a significant correction in the real estate market will be the extent of any "crisis" for Dubai (although Moody's VP for Sovereign Risk, Tristan Cooper, noted that Singapore's real estate market lost 70-80 percent of its value in one year when it went through a similar "correction" earlier this decade). The accompanying assumption to that conclusion, though, is that the Central Bank and/or Abu Dhabi will continue to step-in to ensure Dubai's banks and government-linked development entities don't fail, and thereby do enormous reputational damage to both the Emirate and the UAE.

6.(C/NF) Others sources have said the question is not if Dubai will experience a "hard landing", but "how hard" it will be. The well-respected Managing Director of one of Dubai's leading property consultants pointed to Dubai's plethora of newer/smaller developers (and presumably their contractors and subcontractors) as the most likely to be hardest hit. (But such is the extent of ongoing projects here that several sources offered a caveat: even with significant scaling back there is at least 2 years of high demand left for construction contractors in the Dubai market.)

Dubai's Public Response Criticized

7.(C/NF) Our contacts universally complain about the lack of transparency in the Dubai government's handling of what the business and finance sector here all know -- Dubai is experiencing significant financial trouble. General sentiment among the investment sector is that the leadership's unwillingness to acknowledge the liquidity problems widely speculated about in the press and elsewhere are undermining investor confidence and increasing the potential for the problem to spread. The local managing Director of a US investment bank told DPO that UAE VP, PM and Dubai Ruler Mohammed bin Rashid al Maktoum (MbR) may have already missed the opportunity to address the issue head on and reassure investors. Still, he argued, MbR's surrogates should use upcoming public events to acknowledge a problem exists.

Comment: What's Next?

8.(C/NF) Bigger tests are on the horizon for Dubai as it faces over USD 10 billion or more in corporate bond maturities in 2009 [according to a recent Moody's report]; other informed sources

have indicated a much larger-scale debt problem (Ref E, F). The Emirate's capacity to deal with these maturities will go a long way in determining whether the certain slowdown in the economy will lead to a contraction or to a crash/crisis. Most of our contacts posit that the governments of Abu Dhabi and Dubai will work together to prevent a crash from happening. They believe a 2-3 year contraction is most probable, with some smaller, private developers failing, and some government-linked mega-projects being scaled back or stopped. If Dubai, as is likely, continues to experience trouble in meeting its obligations and Abu Dhabi is forced to support its risk-taking neighbor in a significant way, it is also likely Dubai will have to re-think (and scale back) its longer term goals to include a greater oversight and investment stake by its cash-rich southern partner. As one senior private sector source told us, an Abu Dhabi "buy-out" is much more likely than a pure "bailout". End Comment.
SUTPHIN